

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6181

BILL NUMBER: HB 1470

DATE PREPARED: Nov 20, 2000

BILL AMENDED:

SUBJECT: PERF and TRF military service credit.

FISCAL ANALYST: James Sperlik

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that members of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) who serve on active duty in the armed services of the United States for at least six months are entitled to service credit for the time served on active duty, to the extent that service credit is not granted for that time under existing PERF or TRF provisions concerning military service credit. It provides that the maximum amount of service credit that may be granted under this provision is two years. The bill requires a member to have at least 10 years of creditable service in PERF or TRF before the member may claim the military service credit.

Effective Date: July 1, 2001.

Explanation of State Expenditures: *Teachers' Retirement Fund:* This bill will increase total unfunded accrued liabilities in the TRF plan by \$25 M for both active and retired employees as described below.

The TRF surveyed 30,000 TRF retirees, with 4,000 responding. The average teaching service of those who responded was 30.7 years, with the average military service amounting to 2.5 years. The average age of the respondents was 71.9 years and the average current pension was \$11,184. The average increase in pensions if two years of military service were granted would be 5.1%. If the two years were granted, the increase in unfunded accrued liabilities would total \$16.8 M with the increase in payout for the first year amounting to \$847,244 and \$813,680 in the second year. The fund affected is the State General Fund. This is for the pre-1996 Plan (Closed Plan).

The survey for active members of the TRF was sent to 84,000 active teachers, with 400 respondents. The average teaching service of those who responded was 23.1 years, with the average military service amounting to 3.1 years. The average age of the respondents was 53.6 years and the average current salary of those who responded was \$54,684. If the two years of military service were granted, there would be an increase in the unfunded accrued liabilities of \$8.2 M.

Below is a table that recaps the estimated costs of granting two years of military service to actives and retirees in the Teachers' Retirement Fund.

	<u>Closed Plan</u>	<u>New Plan</u>
Increase in Unfunded Accrued Liabilities:		
Retirees	\$16,800,000	
Actives	<u>\$8,200,000</u>	<u>\$847,244</u>
Total	\$25,000,000	\$847,244
Increase amortized over 40 years % of payroll	4.7%	.006%
Increase in State Payout current retirees:		
First Year	\$847,244	
Second Year	\$813,600	

Public Employees Retirement Fund:

PERF - State Employees Only

	Active Members Only	Terminated Vested and Benefit Recipients Only	All Members
Increase in Unfunded Accrued Liabilities	\$14,431,372	\$11,127,644	\$25,559,016
Increase in Annual Funding	\$1,753,033	\$808,810	\$2,561,843
Increase in Annual Funding as % of Pay	0.14%	0.07%	0.21%

The increase in annual funding required for active members of PERF is \$1,753,033. The funds affected are the State General Fund (55%), or \$964,168, and various dedicated funds (45%), or \$788,864. The percentage split represents the share each fund contributes to the total payroll of the State.

The increase in annual funding required for all members is \$2,561,843.

NOTE :PERF does not have data on military service. In order to determine the fiscal impact of this proposal, the number of veterans in Indiana was compared to the number of Indiana residents between the ages of 20 and 60.

Explanation of State Revenues:

Explanation of Local Expenditures:

PERF - Municipalities Only

	Active Members Only	Terminated Vested and Benefit Recipients Only	All Members
Increase in Unfunded Accrued Liabilities	\$17,803,308	\$12,091,694	\$29,895,002
Increase in Annual Funding	\$2,370,337	\$878,881	\$3,249,218
Increase in Annual Funding as % of Pay	0.12%	0.05%	0.17%

The increase in annual funding required by municipalities in PERF is estimated to be \$3,249,218 for all members.

Teachers' Retirement Fund

It is possible that there may be TRF members of the 1996 Fund (New Plan) who would be eligible to retire with an increased benefit because of the provisions of this bill. For local school corporations, it could increase the percent of payroll required to fund the new benefit. The current cost of payroll is 8.5%.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund; Public Employees' Retirement Fund.

Local Agencies Affected: Local school corporations.

Information Sources: Denise Jones of Gabriel, Roeder, Smith & Co., actuaries for the Teachers' Retirement Fund, 1-800-521-0498; Doug Todd of McCready & Keene, Inc., actuaries for the PERF, 576-1508.